

## **MINUTES**

### **MONTANA SENATE 57th LEGISLATURE - SPECIAL SESSION COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIR BOB DEPRATU**, on July 30, 2002 at 1:03 P.M., in Room 152 Capitol.

#### **ROLL CALL**

**Members Present:**

Sen. Bob DePratu, Chair (R)  
Sen. Alvin Ellis Jr., Vice Chair (R)  
Sen. John C. Bohlinger (R)  
Sen. Mack Cole (R)  
Sen. Pete Ekegren (R)  
Sen. Jon Ellingson (D)  
Sen. Bill Glaser (R)  
Sen. Dan Harrington (D)  
Sen. Emily Stonington (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Lee Heiman, Legislative Branch  
Deb Thompson, Committee Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: SB 1, SB 2, SB 4, 7/30/2002  
Executive Action: SB 1, PASSED 9-0, SB 2, PASSED  
5-4

#### **HEARING ON SENATE BILL 1**

**Sponsor:** Senator John Cobb, SD 25, gave an explanation of the bill. He noted the department guaranteed to the counties to give back the tax proceeds. He described the formula and how the amendments would allow the money to go back to the old way.

**Proponents' Testimony:**

**{Tape : 1; Side : A; Approx. Time Counter : 0 - 3.9}**

**Director Chuck Swysgood from the Office of Budget and Program Planning** said this bill was part of the package which would address the budget shortfall. He said it was important to understand the compromises in which the one million dollars would offset the general fund. He said the programs would continue but there would be some sacrifices. Some flexibility would be given to the Medicaid program. He handed out amendments to the bill.

**EXHIBIT(tas-4a01)**

**Mona Jamison, representing Boyd Andrew,** described the risk of job loss and hoped for a creative resolution. She pointed out the General Fund would get one million dollars which would be part of the solution. She said it was important to be able to promise the programs would still have the ability to deal with services. She urged the committee do pass the bill as amended.

**Mike Murray, Chairman of the Lewis and Clark County Commission,** spoke as a proponent. He said if this bill passed it could still provide outpatient treatment in the counties. He supported the bill as amended since it would guarantee the counties could still provide free alcohol and chemical dependency treatment.

**Roger Curtiss, a licensed addiction counselor in Montana and the country, representing MASP and 27 state approved programs plus 14 counties in Montana,** said the amendment was appropriate and he would support the bill. He said it would serve the counties as intended.

**Allen Underdal, representing Toole County and TLC Recovery and eight county drug and alcohol programs in North Central Montana,** supported the bill.

**Ron Aprel, representing Boyd Andrew** supported the bill. He personally witnessed the benefits of the programs.

**Kristi Blazer, representing Rimrock** in Billings, said Rimrock supported the consensus. She thanked those who worked on the bill. She talked about the sunset of SB 264 back to the status quo on 7/03.

**Aaron Hardy, representing ShareHouse** in Missoula supported the bill. She described their 14 bed facility and the detox center.

**Michael Derbyshire** spoke in support of the bill. He described his work at ShareHouse in Missoula and his past as a consumer of

the service. He is now a productive citizen thanks to the program that was provided with this funding.

**{Tape : 1; Side : A; Approx. Time Counter : 18.5 - 19.6}**

**Kristina Swanson, representing Missoula County Planning Office,** supported the bill. She described the importance of using the local levy as leverage to match federal grants. **EXHIBIT(tas-4a02)**

**Ed Diemert, representing Liberty County Commission and the TLC Recovery Program** discussed the need to be able to continue operating the programs.

**Harold Blattie representing MACO,** supported the bill.

**Kathy Walker, a Butte counselor with Butte Silver Bow Chemical Dependency Office,** described her former drug use and how she is now a chemical dependency counselor. She said as the bill was first written it would hurt these programs. However, she now supported the bill with the amendments.

**{Tape : 1; Side : A; Approx. Time Counter : 20.3 - 21.2}**

**Judy Koler, representing Gateway Recovery Center of Great Falls,** described how the rural programs would be hurt if this bill were passed without the amendments. She said it would effectively cut the program by 78% and result in the layoff of two staff members. She supported the amendment.

**Chris Johnson from the Lake County Commission,** discussed how the recovery centers offered new hope for people that needed their services.

**Mark Clark from a Lewistown Center,** supported the bill. He noted the difficulty people would have attending rural satellite centers with no driver's licenses.

**Carol Richard representing TLC Recovery, Inc.,** described the rural counties and their need for money in order to stay in business.

**{Tape : 1; Side : A; Approx. Time Counter : 24.5 - 25}**

**Jean McCaully, representing four counties in SW Montana,** talked about the rural counties and her support for the amendment.

**Shelly Johnson, an alcohol and chemical dependency counselor and director of services in a Bozeman center,** talked about the possible loss of the tax money and how it would devastate

counties. She said she appreciated the work done on SB 1 and the amendments.

**Lynette Brody, representing Gallatin County,** said their agency supported the compromise and the amendments.

**Nancy Moore, case manager for Boyd Andrew Center in Helena,** supported the amendment.

**Raphael, a Butte intern,** talked about his desire to work in the field.

**Kara Hubbard, a Gallatin County adolescent drug counselor,** supported the bill as amended.

**Mike Ruppert, CEO of Boyd Andrew,** discussed how the loss of money would mean that many rural areas would have no services. He urged passage of the bill as amended.

**Opponents' Testimony:** None

***{Tape : 1; Side : B; Approx. Time Counter : 0 - 0.6}***

**Questions from Committee Members and Responses:** **Lois Steinbeck, from the Legislative Fiscal staff,** gave the committee some background information. She said the DPHHS allocated the beer tax revenues for prevention programs. She noted that the state also allocated one million dollars to the counties for prevention programs. Some counties use this money to match federal funds. The executive proposal would have used the million dollars for Medicaid and it would have been gone. She described the compromise that had been reached that would offset the General Fund only this year. It will be reallocated, sun setting the next year to revert to the way it was historically.

**Senator Stonington** stated concerns raised in testimony regarding less flexibility for the Medicaid matching money. **Steinbeck** described the flexible funding source had no strings. **Senator Stonington** asked if the mechanism would work in the future. She pointed out the problem would be loss of local control and flexibility. **Steinbeck** commented that the federal Medicaid Program had many nuances and was generally complex, but the counties could use their funding as they wished. A fiscal note was distributed. ***{Tape : 1; Side : B; Approx. Time Counter : 3.7 - 6.4}***

**Senator Stonington** asked if the figure was \$270,000. **Steinbeck** clarified the money may be as much as one million dollars. She noted the \$270,000 may have strings. She stressed the idea of

hiring a consulting firm which may provide more answers. **{Tape : 1; Side : B; Approx. Time Counter : 8.9 - 9.8}**

**Senator Ellingson** asked if the counties used their share of revenue for federal matching money. **Steinbeck** replied that they did. She pointed out there was no federal reimbursement for Medicaid services.

**Closing by Sponsor:** **Senator Cobb** closed.

#### **EXECUTIVE ACTION ON SENATE BILL 1**

**Senator Ellis** moved the bill. **Senator Bohlinger** moved the amendment. He commented that there were 28 people who testified as to the importance of the amendment.

The question was called on the amendment. The amendment PASSED unanimously.

**Senator Ellis** moved the bill as amended. The question was called and the bill passed unanimously.

#### **HEARING ON SENATE BILL 2**

**Sponsor:** **Senator Tom Beck** representing SD 78 in Deer Lodge, presented the bill in place of Senator Zook who could not be present. He explained the bill would give liquor stores more commission. He distributed a fiscal note.

**{Tape : 1; Side : B; Approx. Time Counter : 16.1 - 19.6}**

**Informational Testimony:** **Director Chuck Swysgood** representing the Office of Budget and Program Planning, said this bill addressed the revenue shortfall.

**Proponents' Testimony:** None

**Opponents' Testimony:** **Representative Gay Ann Masolo**, spoke as an opponent. She pointed out that the hearing was not attended by those affected by the bill. She said it would make a big difference if those people knew about the bill proposal.

**Senator Harrington** said he was positive people did not know of the proposed legislation or they would be in attendance.

**Questions from Committee Members and Responses:** **Senator Ekegren** said he disagreed and noted a letter he had received regarding

the proposed bill. He asked if this could be seen as a tax increase. He noted that the larger stores were promised a 1.25% commission if sales of \$500 thousand or more were made and this would be in effect until July 2004. Now this would end earlier. He said the small towns would be effected. The larger communities were already taken care of. Those with sales under \$500 thousand would equal 1.25%. He said he found it difficult to support the bill as it would be taking this commission away that was promised.

**{Tape : 2; Side : A; Approx. Time Counter : 0 - 1.4}**

**Shauna Bingham** representing the Department of Revenue, was asked to explain the liquor store commission. She said the liquor stores had an opportunity to increase their commissions when their sales averaging over three years were brought up to average. This bill would eliminate any additional commissions. However, they would still maintain the commission rate that they bid on.

**Senator Ellis** asked how the averages could rise if the liquor stores were regulated. **Bingham** replied that in 1995 when the liquor stores were privatized, the commission rates were bid on and every three years they were averaged.

**Closing by Sponsor:** **Senator Beck** closed. **{Tape : 2; Side : A; Approx. Time Counter : 5.5 - 7.8}** He noted the hearing date and time had been posted on the Internet web site. The bill would go through the House so further discussion would be possible by opponents or proponents. The near term impact to the General Fund would be \$184 thousand and then as much as \$1.2 million by next biennium. He asked why commissions should be paid to liquor stores. He suggested the stores be able to mark up their product to be competitive.

#### **EXECUTIVE ACTION ON SENATE BILL 2**

**Chairman DePratu** clarified to the committee that proper procedure and adequate notice was provided for this hearing.

**Senator Bohlinger** moved DO PASS SB 2.

**Discussion:** **Senator Stonington** described her ten year experience being a member of the opposition party. She said she could not support budget cuts as they were too deep and would get worse.

**Senator Harrington** said he would vote no on this bill. He discussed the privatization of the liquor store industry as it

was no longer a state entity therefore their income was not stable. He stressed the liquor store businesses should be able to participate in the free enterprise system and raise their prices.

**Senator Cole** commented that this bill would slow down their commission but that 1.25 percent was not a major cut.

**Senator Ellis** pointed out that out of state people would not move to Montana for more than half the year because there was no equality in the tax system. The research has show the economy of Montana to be slow and the tax system oppressive.

*{Tape : 2; Side : A; Approx. Time Counter : 18.4 - 21.5}*

**Senator Bohlinger** pointed out there were shortfalls in the General Fund. The problem has been fewer taxes collected and had nothing to do with the reduction of the business equipment tax. He called for the question on the bill.

The bill PASSED 5-4 on a roll call vote.

#### HEARING ON SENATE BILL 4

**Sponsor:** **Senator Dan Harrington, SD 19 Butte**, presented the bill. He said it was important to add revenues to the state. People were upset with the cuts in K-12, university system and health care. The health care arena had drastic cuts and now more cuts were proposed. The legislators had a responsibility to the people to solve these issues. He distributed a fiscal note on the bill. The bill was trying to come up with a way to minimize the cuts. There would be no rebates. The money would go straight to the General Fund. The first 4% stays the way it is. All of the 8% car tax would be used for the General Fund by October 1. He referred to the charts of other states regarding the accommodation and car rentals. **EXHIBIT(tas-4a03)**

*{Tape : 2; Side : B; Approx. Time Counter : 0 - 7.3}*

**Senator Harrington** referred to the Great Falls Tribune article "**How could you cut taxes further?**". He pointed out the university students have to pay more when the universities are not funded or have cuts in their budgets. The cuts are passed on to the students and this is pricing students out of college. This rise in costs condemns students to long term debt. This bill helps with a solution to increase revenue to the state.

**Proponents' Testimony:** Eric Feaver representing MEAMFT, spoke in favor of the bill. He pointed out the need to address those affected by the cuts in the university system and the public schools. A new revenue stream is needed as a solution to provide a revenue stream for the future.

***{Tape : 2; Side : B; Approx. Time Counter : 9.3 - 13}***

Senator Bohlinger, SD 7, supported the bill. He referred to the charts. He said Montana should be reflective of national averages in their lodging facility tax, which is the lowest in the country. He pointed out the lodging facility tax was the lowest in the nation and even the middle of the mean, or 5 3/4 under the mean of 13 deserves consideration.

Dick Crofts, Commissioner of Higher Education, said he supported SB 4 as a way to increase available revenues for continuation of essential student services. He stressed the universities were the economic engine for a prosperous future. The magnitude of the cuts and the consequences to students in the state were enormous. The cuts proposed equaled \$10.4 million dollars to the budget with more cuts as much as 8%. In 1992, campuses in the university system received \$115.5 million dollars to educate 24,081 full time students. If HB 2 passes, fiscal 2003 campuses will receive \$114.5 million dollars to educate 26,011 full time students - where funding is down but the student numbers are up. The Board of Regents have taken no position on the bill but the proposal would work in the absence of other revenue enhancement.

***{Tape : 2; Side : B; Approx. Time Counter : 13 - 16.9}***

Bob Vogle, representing the Montana School Board Association, supported SB 4. He represented 1500 trustees and they are all aware of the difficulties of balancing a budget. He noted that all ideas should be put on the table as local people don't have many ways to increase revenues or the tools to do so.

**Opponents' Testimony:** Kurt Alme, Director of the Department of Revenue, spoke as an opponent to the bill. He stressed that all taxes were negative to a healthy economy. The cuts are painful to Montanans with real impacts. Now is a time of an economic slowdown. New taxes impact and take money from the people which sends the wrong signal. It is best to endure the cuts. He recommended voting against SB 4.

***{Tape : 2; Side : B; Approx. Time Counter : 16.9 - 20.9}***

Candace Layne, representing the Montana Car Rental Association, spoke against the bill. She felt this was "piece meal"



legislation. A new tax needs minimal impact on the residents. She discussed the rental vehicle surcharge of 10% at airports.

**Steve Jacobsen, representing National Car Rental**, pointed out there were six cities in Montana that imposed a 10% local rental tax now. This tax was paid to the local airports.

*{Tape : 3; Side : A; Approx. Time Counter : 0.0 - 4.2}*

**Stuart Doggett, representing the Montana Inn Keepers Association**, opposed SB 4. He did not like the timing as it appeared to be a major shift in tax policy. This tax would fund the General Fund not the Travel Promotion area. This tax would be narrowly focused on two industries.

**Robert Ward, Vice President of GM Enterprises of Montana**, said it was unfair to tax a selective few industries to benefit the entire population. A broad based tax would be better. He noted that the car rental business targeted 3 of every 4 Montanans. This would target Montanans not airport customers that were from out of state. It would be poor public policy to target specific industries.

**Amy Sullivan, Montana Travel Coalition**, pointed out the education provision in the current bed tax was the only one in the nation. These were unsure times with an unsteady stock market. She urged caution. Campground usage was up but motel guests were down. She also noted that **Mary Wittinghill of the Montana Taxpayer Association** also opposed the bill.

**Webb Brown, Montana Chamber of Commerce**, spoke as an opponent. He noted their association supported a general sales tax which would be a broad based tax. This proposal taxed business travelers and car rentals. He requested a delay of discussion of the bill for the regular Session.

**Steve Turkowicz, Montana Auto Dealers' Association**, talked about the title and registration fees that rental car companies paid of \$14 million which goes to the General Fund.

*{Tape : 3; Side : A; Approx. Time Counter : 4.2 - 13.7}*

**Steve Costly, Montana Car Rental Association**, spoke about what the rental car industry faced on a monthly and yearly basis. He said this was a large target but these constituents were silent.

**Tim Peper, Rental Cars of Montana**, opposed the bill.

**Questions from Committee Members and Responses:** Senator Ekegren asked for clarification of campgrounds. **{Tape : 3; Side : A; Approx. Time Counter : 13.7 - 15.6}**

Senator Bohlinger asked if the lowering of the business equipment tax was an impediment to job growth. There were now shortfalls in the budget especially impacting the areas of education and human services. He asked for suggestions. **Stuart Doggett** replied that \$2 million dollars had been taken out of the reserve account of Travel Montana. He pointed out the industry members did not want the responsibility of collecting endless taxes. This may turn consumers away. There is a point to consumer resistance.

Senator Ellingson asked about the 10% tax paid to airports. **Jacobsen** replied that this depended on the city. Some were in the 5-7% range. He was afraid that 8% would break the system. When their contracts were up - they may not negotiate 10% if they have to additionally pay 8% to the state General Fund. Their rental business may move off the airport and that would result in a \$300 thousand dollar shortfall for the Billings airport, as an example.

Senator Bohlinger pointed out the client is the one that pays the tax not the businesses.

**Closing by Sponsor:** Senator Harrington closed. He presented an amendment. **{Tape : 3; Side : B; Approx. Time Counter : 0 - 2.8}** He noted this tax is simply the cost of doing business. This proposal would alleviate cuts. He recommended holding off on executive session. **EXHIBIT(tas-4a04)**

**Kurt Alme** passed out requested information for the capital gains tax. **{Tape : 3; Side : B; Approx. Time Counter : 2.8 - 12.4}**

ADJOURNMENT

Adjournment: 4:40 P.M.

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SEN. BOB DEPRATU, Chair

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DEB THOMPSON, Secretary

BD/DT

**EXHIBIT**(tas-4aad)